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Letter dated 8 October 2004 from the Secretary-General addressed to the President of the Security Council

I have the honour to convey the attached communication, dated 6 October 2004, which I received from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina (see annex).

I should be grateful if this letter could be brought to the attention of the members of the Security Council.

(*Signed*) Kofi A. **Annan**

04-54532 (E) 041104

Annex

Letter dated 6 October 2004 from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina addressed to the Secretary-General

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit to the Council reports from the High Representative in accordance with annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present to you the twenty-sixth report. I would ask you kindly to distribute this report to the Security Council members for their consideration.

(*Signed*) Paddy **Ashdown**

Enclosure

Twenty-sixth report of the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina to the Secretary-General

1 January-30 June 2004

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit to the Council reports from the High Representative in accordance with annex 10 of the Peace Agreement and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present the twenty-sixth report.

Summary

1. Almost nine years after Dayton, Bosnia and Herzegovina is now within reach of the NATO Partnership for Peace and the launch of negotiations with the European Union (EU) for the conclusion of a stabilization and association agreement. More than two years after taking on my mandate as High Representative on 27 May 2002, I remain committed to my overarching objective of ensuring that Bosnia and Herzegovina is a peaceful, viable State on course to European integration.

2. In the period since its last report, the Office of the High Representative has continued to make substantive progress in several key areas. My priorities over the past six months focused on improving the operation and effectiveness of Bosnia and Herzegovina's crucial governing institutions.

3. The European Commission Feasibility Study identified 16 general conditions for opening negotiations on a stabilization and association agreement with Bosnia and Herzegovina by December 2004. The Bosnia and Herzegovina authorities made significant progress towards fulfilling the legislative requirements in the first six months of this year. Furthermore, important structural changes in the fields of crime prevention, the judiciary, customs and taxation, the development of a single economic space, and the energy market have been initiated. Office of the High Representative staff worked closely with the entity- and State-level governments and parliaments, assisting them in drafting, promoting and enacting the necessary laws.

4. At its summit in Istanbul on 28 and 29 June 2004, NATO announced that the Stabilization Force would be terminated. On 9 July the Security Council welcomed the intention of EU to mount a military mission from December 2004. On 12 July 2004, the European Council issued its decision to replace the NATO mission with an EU-led peacekeeping force by the beginning of next year. The EU force will work in unison with me, the European Union Police Mission, the European Union Monitoring Mission and the European Commission's assistance programmes to support the stabilization and association process and the Office of the High Representative's own mission implementation plan.

5. Despite remarkable progress on the defence reform front, placing the armed forces under State control and fulfilling almost all the NATO reform benchmarks, Bosnia and Herzegovina failed to meet the benchmarks required for entry into the Partnership for Peace at the Istanbul summit. The alliance expressed concern that

Bosnia and Herzegovina and, in particular, a small number of obstructionist elements in Republika Srpska had prevented the Republika Srpska from fulfilling its obligations to cooperate fully with the International Criminal Tribunal for the Former Yugoslavia. Republika Srpska authorities have failed over nine years to arrest and transfer to the jurisdiction of the Tribunal a single indictee for war crimes, which is a fundamental requirement for the country as a whole to join the Partnership for Peace. NATO did not, however, say "no"; they said "not yet", with the summit acknowledging Bosnia and Herzegovina's progress in defence reform — also a precondition for Partnership for Peace membership — and urging that it maintain recent momentum towards creating a single military structure. The alliance reiterated that Bosnia and Herzegovina would be welcome in the Partnership for Peace once it had met the established NATO benchmarks.

6. As a consequence of the NATO decisions at Istanbul, it was necessary to take extraordinary measures to identify and penalize individuals and organizations reliably reported to be supporting indicted war criminals. As a result, 59 individuals were removed either permanently or conditionally from their public and party posts, and financial penalties were imposed on the Serbian Democratic Party (SDS). An earlier audit having identified serious abuses, I ordered reform of SDS funding in future, and that public funding of SDS should be reallocated to State institutions working on the apprehension of war criminals and regulating party financing. I also ordered a full-scale audit into Srpsko Sume — a State firm suspected of assisting indicted war criminals.

7. My office continued to work on building the capacities of the State Court in the first half of 2004. The Office of the High Representative's rule of law team supervised the recruitment of international judges and prosecutors for the special panel on organized and financial crimes within the State Court.

8. Also in the rule of law sphere, the Independent Judicial Commission completed its work and its mandate was terminated on 31 March. The functions of the Commission were folded into the single, State-level High Judicial and Prosecutorial Council, which came into being on 1 May. Based on a law developed by my office, the multi-ethnic Council has taken over responsibility for appointing and disciplining judges and prosecutors. It will serve as the guarantor of a new Bosnia and Herzegovina judiciary that meets the highest European standards.

9. The Office of the High Representative continued to oversee the establishment of the State Investigation and Protection Agency. The requisite legislation providing for this kernel of a genuine, State-level police force was enacted in the first half of the year, and the Agency moved into new premises during the summer.

10. Considerable progress was made in completing the economic reforms outlined in the agenda the Office of the High Representative presented to the Peace Implementation Council in December 2003. The Bulldozer Initiative entered its third phase, effectively removing or amending laws that acted as barriers to entering or conducting honest business under purely local auspices. The cumulative impact of the continuing Bulldozer process has been to make Bosnia and Herzegovina more business- and investment-friendly. Laws regulating the energy and other basic sectors were also adopted in the period. Bosnia and Herzegovina joined up to European grid on 10 October, reconnecting the three electricity companies to the Western Balkan grid in line with the European Commission plan for central and southern Europe. As important in the longer term, the Indirect Taxation Authority

began operation, combining customs administrations with its countrywide headquarters in Banja Luka. The Authority will administer the unified customs service and supervise the introduction next year of value added tax through a single account at State level. This fundamental fiscal reform should not only put an end to much tax evasion and create a level economic playing field across Bosnia and Herzegovina, but it will also redress the imbalance in fiscal competency between the State and the entities. By the middle of 2005, we expect to see registration begin for implementation of VAT, with a target date of 1 January 2006 for full operative implementation.

11. Following up on the achievements of the Defence Reform Commission in 2003, the first half of the year saw the appointment of the first post-war defence minister, Nikola Radovanović, key appointments of general officers to the new Armed Forces of Bosnia and Herzegovina, and the passage of the defence budgets necessary to make the continuation of reform (and the attainment of Partnership for Peace benchmarks) possible. Downsizing of the entity armies has proceeded and the necessary enabling legislation has been adopted and rulebooks for the Ministry of Defence have been approved. Staffing of the Ministry has proceeded slowly, however, and it still lacks adequate premises to accommodate the staff it ought to have.

12. The keystone in Bosnia and Herzegovina's future intelligence and security system, the Intelligence and Security Agency, commenced operations on 1 June 2004. The principal appointments had been made; the Book of Rules on Internal Organization was approved by the Council of Ministers on 24 June; and parliamentary oversight by a commission of MPs has been assured. My office continues to assist the members of staff of the former entity agencies to cooperate in preparing the way for their complete fusion by 31 December 2004.

13. Responding to Prime Minister Adnan Terzić's initiative, a Police Restructuring Commission was established on 2 July with a mandate to propose "a single structure of policing for Bosnia and Herzegovina, under the overall political oversight of a ministry or ministries in the Council of Ministers". The Commission started its work on 22 July and is due to report by the end of the year.

14. I imposed a permanent statute for the city of Mostar on 28 January 2004, drawing for the most part on agreements reached between the parties in the two Mostar Commissions, which had met to consider the city's future during 2003/04. This has initiated a process that will put an end to the parallel structures and segregation that have prevailed in that city since the war. The new statute provides guarantees against untrammelled majority rule and ensures that the vital national interests of the three constituent peoples and the "others" are safeguarded. By March, we were able to proceed with the abolition of the six pre-existing "city-municipalities" and their unification in a single city government. We have continued to make progress — symbolized by the inauguration in July of the rebuilt "Old Bridge" — but the process will not be complete until elections for a new city assembly are held in October and an administration is formed.

15. In 2003 the Bosnia and Herzegovina Human Rights Chamber ordered Republika Srpska to conduct an in-depth investigation into the fates of those persons still counted as missing following the massacres in and around Srebrenica in July 1995. The Srebrenica Commission finally began work in January 2004 and eventually produced a report, adopted by the Republika Srpska Government, which,

for the first time, acknowledged the magnitude and nature of the atrocities committed following the fall of the Srebrenica "safe area" and provided new details on mass grave sites.

16. During the reporting period, the Bosnia and Herzegovina authorities successfully assumed responsibility for annex VII implementation. The Office of the High Representative has maintained a small team to monitor developments, but which will close down at the end of November 2004. The property repossession rate rose to 93 per cent, the State Law on Refugees and Displaced Persons (amended in September 2003) is gradually being implemented, and the Bosnia and Herzegovina Ministry for Human Rights and Refugees established regional centres in Sarajevo, Mostar, Banja Luka and Tuzla.

17. Significant progress has been achieved in all of the core tasks of the Office of the High Representative: rule of law, reforming the economy, strengthening the capacity of Bosnia and Herzegovina institutions, and defence reform. In June 2004, the Office presented an update of its mission implementation plan to the Peace Implementation Council Steering Board. In September it received approval for a budget for next year which will close down the rule of law pillar (its work having been successfully completed) and cut its budget by 20 per cent and its manpower by 25 per cent. The updated mission implementation plan document can be found on the web site of the Office, www.ohr.int.

I. Introduction

18. This is my fourth report to the Secretary-General since taking over as High Representative on 27 May 2002. I will endeavour in this report to assess the progress made towards attaining the goals outlined in my previous report, as well as reviewing developments during the reporting period.

II. Political update and core reforms

19. The political scene in Bosnia and Herzegovina was dominated in this reporting period by the consequences of two events in late 2003: the publication in November of the European Commission's Feasibility Study on the readiness of Bosnia and Herzegovina to begin negotiations on a stabilization and association agreement and the issuance in December by NATO of benchmarks that the country must meet if it is to join the Partnership for Peace programme. Following publication of these documents, all parties represented in the Bosnia and Herzegovina Parliament signed a common platform pledging to take the measures necessary for further Euro-Atlantic integration, the first commitment of its kind in post-war Bosnia and Herzegovina. In practice, the authorities have succeeded in fulfilling some of the key conditions set by the European Commission and NATO, notably by adopting a good deal of the requisite legislation and establishing several new State-level institutions. However, the failure of the authorities in Republika Srpska to cooperate fully with the International Criminal Tribunal for the Former Yugoslavia and the sluggish pace at all levels of government in actually implementing the reforms adopted has limited the country's progress over the last six months.

20. The European Commission Feasibility Study set 16 general conditions for opening negotiations on a stabilization and association agreement. Many of these

conditions entail the adoption and implementation of significant structural reforms, including the transfer of key competencies from the entities to the State.

21. One of the principal Partnership for Peace benchmarks, the establishment of a State-level Ministry of Defence with command and control functions exercised on behalf of the Bosnia and Herzegovina Presidency rather than the entities, has made substantial progress over the period under review.

22. Yet this success has been undermined by the Republika Srpska authorities' persistent failure to cooperate adequately with the Tribunal, particularly in arresting persons indicted for war crimes. It was this deficiency that caused NATO to deny Bosnia and Herzegovina entry into the Partnership for Peace at the alliance's June summit in Istanbul. As a result, I was forced on 30 June to take extraordinary measures to penalize individuals and organizations identified as supporting suspected war criminals, removing — either permanently or conditionally — 59 individuals from party and other public positions, including the Republika Srpska Interior Minister and the President of the Serbian Democratic Party. Having previously initiated an audit of SDS finances that revealed serious and widespread abuses, I ordered that the party should create a single account and forfeit its public funding until Bosnia and Herzegovina was cooperating fully with the Tribunal. Public monies which would otherwise flow to SDS will in the meantime be diverted to State institutions working to apprehend or try indicted war criminals and to regulate party financing.

23. As in the past six months, the priorities of the Office of the High Representative will continue to reflect the key targets set for the country by NATO and the European Commission over the next year or more, and the need for effective institutions at the State level: we will work to ensure that the State Court, the State Investigation and Protection Agency (SIPA) and police forces in general, the Indirect Taxation Authority, the Bosnia and Herzegovina Ministry of Defence and the Joint General Staff/Operational Command, the Intelligence and Security Agency, and the Bosnia and Herzegovina Council of Ministers are fully operational and self-sustainable.

III. The European Commission Feasibility Study requirements

24. The Bosnia and Herzegovina authorities made notable progress in the first half of 2004 in fulfilling the legislative requirements of the European Commission's Feasibility Study. Eighteen laws were enacted, many of which introduce significant structural changes in the fields of crime prevention (SIPA package), the judiciary (High Judicial and Prosecutorial Council), customs and taxation (Indirect Taxation Authority law), development of a single economic space (Business Registration Law, Insurance Law and the laws establishing Institutes for Standardization, Meteorology and Intellectual Property), and the functioning of the energy market (ISO, TRANSCO).

25. An additional 21 laws adopted by the Council of Ministers awaited enactment by the Bosnia and Herzegovina Parliamentary Assembly at the end of June. These relate to public broadcasting; phytosanitary matters; market standards (General Food Safety Law, Market Surveillance Law, General Product Safety Law, and Technical Requirements and Conformity Assessment Law); the judiciary (Amendments to the Law on State Court and State Prosecutor's Office); the

introduction of VAT (Law on Payments into the Single Account and Allocation of Revenues, Law on Customs Policy, VAT Law); budget control (State Finance Law); and police reform (Law on Border Protection of Bosnia and Herzegovina and State Border Service). These laws are expected to win parliamentary endorsement in the course of the autumn.

26. In the rule of law sphere, the State-level High Judicial and Prosecutorial Council was established on 1 June. The Council, including its secretariat and Office of the Disciplinary Counsel, is now operational and will continue the work of judicial and prosecutorial reform initiated by the Independent Judicial Commission, which closed down on 1 April. The Council is expected to complete the reappointment of judges in the early autumn. It will, however, be necessary in the near future to address the unacceptably high level of judicial salaries, which are now handling the delivery of effective justice within current budgetary restraints.

27. The Bosnia and Herzegovina Parliamentary Assembly completed passage of the main laws establishing the State Investigation and Protection Agency in July. The Agency moved into temporary premises and started recruiting the range of personnel necessary for it to grow rapidly into a robust State police force capable of fighting organized crime, illegal immigration and international terrorism, as well as apprehending indicted war criminals.

28. Together with the EU Customs and Fiscal Assistance Office, the Office of the High Representative has provided continuous support over the past six months to the nascent Indirect Taxation Authority. Although not yet fully operational or appropriately housed, the Authority acquired a budget of its own, elaborated a regional structure and revenue allocation mechanism, and submitted draft VAT legislation to the State parliament. The introduction of VAT is essential if Bosnia and Herzegovina is both to finance its growing State apparatus and progress towards EU candidacy.

29. A single State-wide business registration system was created in the period. The register will simplify the process of company registration and enhance the business environment for domestic and foreign investors.

30. My office facilitated the establishment of an EU-compatible phytosanitary office (Administration for Plant Health Protection) at the State level. Sets of phytosanitary and market standards' laws await parliamentary approval.

31. The Office of the High Representative and the European Commission continue to oversee the adoption of a State-level law on public procurement that would introduce an effective and transparent public procurement regime in line with EU standards.

32. The passage of energy sector reforms created a unified energy system throughout Bosnia and Herzegovina. The reforms foster compliance by Bosnia and Herzegovina with its international obligations and facilitate further the country's integration in the south-east European regional electricity market.

33. We have made great strides as well in establishing a domestic War Crimes Registry. The registry should manage and administer war crimes trials in Bosnia and Herzegovina, the aim being to take on cases from The Hague in January 2005. A package of enabling legislation developed by my office is proceeding through the Parliamentary Assembly and should be enacted early in the autumn.

34. The Bosnia and Herzegovina authorities will likely have completed the majority of the legislative steps required by the Feasibility Study by the end of October 2004. The Office of the High Representative, together with the European Commission, remains heavily engaged in helping to draft and in lobbying on behalf of these laws, as well as in working to strengthen the capacity of Bosnia and Herzegovina institutions to implement them.

IV. Inculcating the rule of law

35. Building on earlier work, we continued to make progress during the reporting period. Significant steps towards firmly establishing the rule of law in Bosnia and Herzegovina included the following:

36. The special panel for organized and financial crimes within the State Court of Bosnia and Herzegovina was created by amendments to the Law on Courts early in 2003. Similar amendments to the Law on the Prosecutor's Office created a comparable special department for prosecutors. Recruitment of international judges and prosecutors to serve in these departments presented a challenge but, by the middle of 2003, international judges and prosecutors had arrived and begun working with their domestic colleagues. Participation by these international members quickly demonstrated the merits of the scheme when the special department launched prosecutions of high-profile instances of organized criminal activity that had not previously been effectively attacked. The participation of international judges in the panels hearing these cases soon also proved its value. However, the recruitment of sufficient numbers of foreign judges and prosecutors remains a challenge for my office, while the advent of a special war crimes panel will make that challenge even more critical. Unless this can be remedied by increasing the number of international judges and prosecutors, progress on establishing the rule of law in Bosnia and Herzegovina could be held up. On the other hand, the establishment this year of a common registry for the special panels should result in more effective use of these limited resources.

37. The initial meetings with the International Criminal Tribunal for the Former Yugoslavia to discuss the creation of a domestic capacity to try war crimes cases transferred from The Hague were held late in 2002. Discussions continued in 2003, resulting in an agreement between the Tribunal and the Office of the High Representative regarding the resources required and the approximate numbers and types of cases that could be tried by the State Court. That agreement was presented to and endorsed by the Security Council. This was followed by a donors' conference that sought to elicit support from interested States to pay the international costs of the project. The financial help pledged during the conference enabled the project to proceed. In May 2004, the United States provided a project manager for the undertaking. The plan calls for an international agreement between the High Representative and the Government of Bosnia and Herzegovina to create a special chamber within the State Court to try such cases, as well as for the formation of a registrar's office within the court. The registry will provide the logistical and administrative support for both the special panel for war crimes and the existing panel for organized and financial crimes. This support is to include recruitment of judges and prosecutors, management of international donations, case assignments to the special panels, administration of witness protection programmes, security issues, resolution of issues relating to confinement facilities, and numerous other

administrative matters. The international agreement should be signed during September 2004 and the domestic enabling legislation necessary to carry it out should follow in October. When that happens, all responsibility for this project will fall to the Registrar's Office.

38. The effort to develop a sound anti-money-laundering programme has progressed well. A new law that complies with international standards was enacted in June 2004, as part of the package of laws expanding the role of the State Investigation and Protection Agency. The law was the fruit of an extensive collaborative process that included input from various international organizations and all relevant domestic agencies. This law makes SIPA, through its Financial Intelligence Department, primarily responsible for compiling and analysing information from financial transactions in order to initiate appropriate criminal investigations. Even though these are now primarily the job of SIPA, the Office of the High Representative will maintain its involvement in the project through the end of 2004 as it works with the Government of Spain to provide specialized hardware, software and training to assist SIPA in its work.

39. The effort to develop the means to seize assets acquired through or used in criminal activities resulted in the drafting of a law to be enacted at State level to make such a sanction available to the State prosecutor. This law, produced after extensive consultations with both international organizations and local judges, prosecutors and law enforcement agencies, was submitted to the Council of Ministers for its consideration and adoption, and should be on the statute book by the end of 2004.

40. The Anti-Crime and Corruption Unit has had to adapt to the development of the State Court and the State Prosecutor's Office as the arrival of international judges and prosecutors meant that prime responsibility for investigating, prosecuting and trying most major cases of organized crime and corruption shifted to these new bodies. In addition, the adoption of the new criminal procedure codes at State and entity levels meant that prosecutors, rather than judges or police officers, were leading investigations. The Unit reorganized itself during the latter part of 2003 into prosecutorial teams consisting of local and international prosecutors and investigators. Each of these teams has been assigned to specific cases and placed at the disposal of international prosecutors within the State Prosecutor's Office in order to support their investigations and preparation of cases for trial. Although prosecutors and investigators continue to perform other tasks — such as participating in the vetting of nominees for public office and reacting to newly discovered cases of official corruption — they now concentrate on providing essential support to international prosecutors.

41. A valuable dividend realized by this reorganization is the development of local capacity resulting from collaboration between domestic and foreign lawyers and investigators. The creation of a small but effective cadre of local lawyers and investigators should provide valuable assets for agencies such as SIPA and the State Prosecutor's Office.

42. The Anti-Crime and Corruption Unit also sought to facilitate the international agreements necessary to forge cooperation between and among the enforcement agencies, prosecutors and courts in Bosnia and Herzegovina and their counterparts in other countries. Most major crimes committed in Bosnia and Herzegovina have an international dimension, since most major crime organizations also operate in

neighbouring States. The Unit has therefore worked to ensure Bosnia and Herzegovina's adoption of the international instruments necessary to foster cross-border cooperation and coordination in indicting, investigating and prosecuting crimes. In addition, the Unit took the lead in developing a prototype bilateral agreement for such cooperation and coordination with neighbouring States. Although a draft of this prototype has been completed and submitted to the government, the Office of the High Representative will need to monitor the eventual negotiation and execution of such agreements in order to ensure that the project is completed.

43. The special projects team of the rule of law pillar worked closely with other international organizations, including the European Union Police Mission, the European Commission and the International Criminal Investigative Training Assistance Programme, on establishing SIPA as a full-fledged, State-level police agency with the resources and authority aggressively to combat organized and international crime, corruption and terrorism. The team organized, managed and directed the efforts that led to the drafting and enactment of the package of laws that granted SIPA its necessary legal authority. This package also included a Law on Police Officials, which established standards for the employment of police officers, as well as their promotion, demotion, powers, responsibilities and the like. Moreover, the package contained laws providing SIPA with responsibilities in the fields of money-laundering and witness protection.

44. Bosnia and Herzegovina lacks modern criminal intelligence capabilities. This deficiency has seriously impaired its ability to deal effectively with organized crime and corruption. The Criminal Intelligence Unit in the Office of the High Representative has begun to work with SIPA and its advisers from the European Union Police Mission to develop this capacity within the Criminal Investigations Department (CID) and to transfer Criminal Intelligence Unit technology to it as it matures.

45. The process of reappointing all judges and prosecutors at all levels in Bosnia and Herzegovina required a massive effort. Almost 1,000 vacancies were advertised. Over 1,700 applications were received and reviewed. Candidates were vetted in a procedure including thorough background investigations. More than 900 candidates were interviewed. The result was the appointment (or reappointment) of 877 judges and prosecutors. Only those positions for which the number and calibre of candidates were inadequate remain to be filled.

46. Establishing adequate budgets for courts was hindered by the need to pay substantial compensation to those judges who were not reappointed. Unresolved problems relating to judicial salaries and fees for attorneys representing criminal defendants further complicated the task. The Independent Judicial Commission and the High Judicial and Prosecutorial Council did, however, succeed in developing reliable data on court needs, judicial compensation requirements and the financial resources available. Although a good deal remains to be done on these issues by the new High Judicial and Prosecutorial Council, a solid basis for its work has been laid.

47. The Disciplinary Prosecutor received cases against 142 judges and prosecutors. A number of disciplinary hearings were held, though some judges and prosecutors opted to resign before the cases against them could be heard. Sanctions were imposed in 14 cases of established judicial misconduct.

48. The State, entity and Brčko District governments agreed early in 2004 to form a single High Judicial and Prosecutorial Council to serve them all. The legislation to give effect to this agreement was duly enacted, and the new Council came into being as a State-level institution on 1 May 2004. The mandate of the Independent Judicial Commission was consequently terminated, but with many members of staff transferring to the Council secretariat. The High Judicial and Prosecutorial Council will continue to employ a few international staff and the secretariat will include some foreign advisers. Although the new Council has no formal relationship with the Office of the High Representative, it will continue to work closely with the Rule of Law and Legal Departments on issues of common interest. Specifically, the Office of the High Representative will need to provide support to the Council as it attempts to deal with the unresolved issues of judicial, prosecutorial and defence counsel compensation, court budgets and minor offence courts. It is likely that the Office of the High Representative's continuing assistance will also be necessary to avoid the re-establishment of some courts closed in the course of restructuring, since certain legislators continue to agitate for their reopening.

V. Reforming the economy

49. Notable progress has been made in completing the items on the economic reform agenda presented to the Peace Implementation Council in December 2003. The economy of Bosnia and Herzegovina, however, has yet to register many concrete benefits from these legal, fiscal and structural reforms. More positively, this period has seen the domestic authorities assert greater ownership over some important economic issues, particularly in regard to fiscal and customs reforms.

50. Indeed, advances recorded in the spheres of indirect taxation and customs during the reporting period have been among the most important for the country's long-term sustainability. The Indirect Taxation Authority, which commenced operation in January 2004, will soon be exercising its responsibilities through an integrated and indirect tax-collection service, as well as through a State-level customs service. These new bodies will be implementing a single set of rules, applicable throughout the country. This significant progress means that it should prove possible to launch collection of VAT by the end of 2005, with much of the work introduced into the business community and tax administration during the summer of 2005.

51. The Office of the High Representative has been instrumental in efforts to find a solution to the longstanding problem of the entities' internal indebtedness. Once this is resolved, a major obstacle to investment and job creation in the country will have been removed. An enabling law was passed in the Republika Srpska, but enactment of similar legislation in the Federation is proving contentious on both popular political and fiscal grounds.

52. More advances have been made in longstanding efforts to reform and restructure the public utilities sector and to create a business-friendly environment in Bosnia and Herzegovina. The Law on Civil Aviation, adopted by the Parliamentary Assembly in December 2003, has been successfully implemented this year. Drafting of the Railway Law, which had previously been blocked by entity obstructionism, was revived during the period; the law and an accompanying inter-entity agreement should be adopted by the end of the year. If so, they will create the

preconditions for liberalizing and restructuring of the country's railways in the interests of greater efficiency and better customer service.

53. The laws establishing the Electricity Transmission Company and the Independent System Operator were passed during the present reporting period. Once implemented, these laws will help ensure both the proper functioning of the electricity transmission system and Bosnia and Herzegovina's further integration in the EU internal electricity market. Furthermore the laws will enable Bosnia and Herzegovina to be ready to take part in the reconnection of the European electricity grid, which will be effected on 10 October.

54. Given the ongoing need to improve the business environment and standards of corporate governance in Bosnia and Herzegovina, the Office of the High Representative supported the drafting of several relevant pieces of legislation: the Law on Public Enterprises, the Law on Investment of Public Funds and the Law on Public Procurement. These laws are expected to institutionalize the concept of corporate management accountability and to introduce internationally accepted accounting standards.

55. During its second phase, the Bulldozer Initiative coordinated by the Office of the High Representative met with some notable successes in its continuing effort to cut bureaucracy and to get rid of rules and regulations inimical to investment. Intensive negotiations are now under way in order to transfer ownership of this process to domestic partners. Meanwhile, the Bulldozer Initiative embarked on its third phase in July. New proposals for reform have been coming in from all parts of the country.

56. The Framework Law on Business Registration having been adopted, the authorities are proceeding to create a single business registration system that will reduce the time and cost of registering a business in Bosnia and Herzegovina.

57. The Office of the High Representative continued during the reporting period to seek to centralize the process of privatizing enterprises across Bosnia and Herzegovina. Although progress has been limited, a single information point for privatization opportunities was established in March, with a web site (www.privatizacija.ba) offering useful, multilingual information for potential investors. My office was also successful in assisting the State Veterinary Institute to become operational and so fulfil its international reporting requirements. These actions have already begun to generate greater confidence among local and international investors and have improved opportunities for Bosnia and Herzegovina producers to export their agricultural products.

58. Release of international audits of the three public telecommunications companies revealed alarming patterns of mismanagement and incompetence, which have cost both consumers and tax payers dear. In response, the entity governments committed themselves to implementing reforms aimed at improving management practices and eliminating endemic corruption in the sector.

59. Over the last few months, my office has been ensuring proper execution of the State and entity budgets for the 2004 fiscal year. The process of drafting the 2005 budgets has now begun, and the Office will be working with domestic colleagues to meet the challenges represented by the continuing transfer of new competencies, resources and costs from the entities to the State.

VI. Strengthening the State Government

60. In the spring of 2004, the Office of the High Representative developed a State Government Strengthening Plan with the aim of assisting the Chairman of the Council of Ministers to make the State ministries and Council of Ministers services fully operational. The State Government Strengthening Plan focuses on two areas: staffing and premises. Staffing levels in most ministries have remained low, due mainly to the fact that there is inadequate office space available for State institutions. Unless and until its component parts — the ministries — are properly established, the Council of Ministers does not have the ability to implement the full range of reforms it has taken on. As the European Commission Feasibility Study makes clear, however, a functional State government is a sine qua non if Bosnia and Herzegovina is to progress along the stabilization and association process. It is also crucial if the High Representative's executive powers are to be phased out and the transition to full domestic ownership completed.

61. It was the problem of staffing the State ministries that prompted the Office of the High Representative to commission a review of the application of the State Civil Service Law by the State Civil Service Agency. The March 2004 report proposed a number of managerial and legal changes, which the agency has since turned into an action plan. The agency has initiated changes in its personnel structure and is currently drafting by-laws and amendments to the Civil Service Law as proposed by the report. The Office of the High Representative Legal Department is working in close cooperation with the agency on these amendments, which should be adopted by the end of the year.

62. The Office is working with Prime Minister Terzić on an action plan to move three ministries into adequate premises before the end of the year. In the absence of a law on State property that prescribes who owns what, the process of allocating accommodation to State institutions also requires close cooperation with the entity governments.

VII. Public administration and civil service reform

63. Public administration reform is ongoing. At this stage, the European Commission-funded reviews of key elements of the public sector are at the heart of the process. Teams composed of both national and international experts carry out the reviews. In July 2004, one of the reviews, a report on the country's police forces, was published. It concluded that the police forces of Bosnia and Herzegovina are both hidebound and unprepared for the future. Most disturbingly, it demonstrated that the existence of several separate layers of policing, without effective mechanisms for cooperation, significantly impairs the fight against crime, drains public coffers and restricts economic development. As such, the report served as a basis for the establishment, in cooperation with the High Representative, of a Police Restructuring Commission by Prime Minister Terzić, which has been tasked, inter alia, with proposing a policing model that is "structured in an efficient and effective manner" and is "cost-effective and financially sustainable". By the end of the year, the public sector reviews will produce more reports. These, in turn, should lead to the formulation of the concrete actions necessary to improve Bosnia and Herzegovina's bloated and inefficient public administration. The office of the public

administration reform coordinator will soon be moved to the Prime Minister's office to underline the fact that he is in charge of the overall reform process.

64. Throughout the reporting period, my office continued to support the establishment of the Federation Civil Service Agency and the recruitment of its first director. The agency should be operational by the end of the year, so allowing the Federation Civil Service Law to become applicable from 2005. Proper supervision of recruiting procedures by this agency is essential if the ruling parties are to be deterred from using the hiring of civil servants as a means of dispensing party patronage. Implementation of the legislation at the entity, cantonal and municipal levels will be closely coordinated with UNDP to ensure the application of international standards and selection criteria. UNDP has pledged additional financial and technical support. But more funds are required to make certain that pubic officials are recruited and engaged solely on merit.

VIII. Police reform

65. In cooperation with Prime Minister Terzić, I formally established the Police Restructuring Commission on 2 July, with a mandate to restructure Bosnia and Herzegovina's police forces and to propose "a single structure of policing for Bosnia and Herzegovina, under the overall political oversight of a ministry or ministries in the Council of Ministers". Wilfried Martens, a former Prime Minister of Belgium, is chairing the commission and David Blakey, a former United Kingdom Inspector of Police, is serving as his deputy.

66. Under the current system, the police forces of Bosnia and Herzegovina work according to an obsolescent policing philosophy with a discredited management style. They have no clear strategies for modernization strategies; their equipment and systems are outdated; and they have too many under-trained police officers. Effective crime fighting is significantly hampered by the many uncoordinated levels of policing and the absence of cooperation mechanisms. This fragmented and inefficient structure, reflecting the national-territorial divisions within the country, impairs the State's ability to provide security for its citizens, devours public funds and impedes economic development. The current system is ill-equipped to address the increasingly sophisticated challenges posed by organized crime, terrorism, drug trafficking and money-laundering. Furthermore, the current system cannot cope adequately with "social crimes" such as juvenile delinquency and domestic violence. Nor can it offer support to victims.

IX. Defence reform

67. Defence reform continues to forge ahead. Bosnia and Herzegovina now has a State-level Ministry of Defence headed by an energetic minister; the Parliamentary Assembly is taking its oversight role seriously; and the downsizing of the entity armies is progressing steadily. The crucial laws are in place and the key appointments have been made. With the confirmation of the last of the general officers by the Presidency on 21 July (chief of joint staff, deputy chief for operations and commander of the operational command), the top military posts have been filled. The Council of Ministers had approved the Book of Rules on Internal Organization for the Ministry of Defence, the Joint Staff and the Operational

Command on 20 May. The Book of Rules foresees a total of 172 positions in the Bosnia and Herzegovina defence institutions: 100 in the Ministry of Defence, 44 in the Joint Staff and 28 in the Operational Command. At the time of writing, however, there are only 48 persons in post, including senior officials, deputies and advisers. The NATO Partnership for Peace benchmarks specify that 65 per cent of the authorized staff positions (or 112 persons) should now be in place.

68. Both entity armies have downsized by at least 25 per cent. Both defence ministries have also adopted new organizational structures. The civilian complement of the Federation Ministry of Defence is to be cut by 27 per cent — to around 945 positions. The Republika Srpska Ministry of Defence has reduced its number of posts by 42 per cent — from 828 to 479. The Presidency's decision in March on the size and structure of the Armed Forces of Bosnia and Herzegovina envisages a much-reduced total of 12,000 full-time military professionals. The reserves, meantime, are to be reduced to 60,000, while both the intake of conscripts and the duration of military service are being cut. The Presidency's decision also provided for the restructuring and downsizing of both the Republika Srpska Army General Staff (from 118 to 80) and the Federation Army Joint Command (from 278 to 150).

69. The defence budgets for 2004 were adopted in line with the NATO-endorsed benchmarks: the State and Republika Srpska defence budgets at the end of 2003 and the Federation budget late in March 2004. Preliminary estimates for the defence budgets for the period 2005/07 are being prepared. A comprehensive defence budgeting system has been proposed, though its implementation depends upon both formal approval and additional staffing. A common defence resource management system — which would incorporate the budgeting system — is also still pending.

70. Despite this progress, enthusiasm among the Bosnia and Herzegovina authorities for defence reform implementation has understandably waned since the NATO Istanbul summit. But the legal and institutional foundation now exists on which we can continue to build. The main task in the second half of 2004 and in 2005 will be to develop the State's ability to exercise its right to command and control the Armed Forces of Bosnia and Herzegovina through the chain of command's operational and administrative branches. Thus the principal focus of my office will remain centred on institutional development. This means that the plans to enhance the State's capacity to organize the staffing, financing, training, equipping and logistical support of several permanent, State-level units will need to be elaborated, adopted and implemented.

X. Intelligence reform

71. The Intelligence and Security Agency became operational on 1 June 2004. The director general, deputy director general and inspector general assumed their positions as planned. Progress has been made in preparing the necessary rulebooks, the most important of which, the Book of Rules on Internal Organization, was approved by the Council of Ministers on 24 June. The organizational structure prescribed by this rulebook is meant to be in place by no later than 31 December 2004. Preparation of the other 20 sub-regulative frameworks (or rulebooks) for the Agency is proceeding at an acceptable speed and they should soon be complete.

72. Parliamentary oversight is ensured by a commission of MPs, which has held several sessions. Its counterpart in the Council of Ministers, the Executive

Intelligence Committee, has been slower to take shape, principally because the Committee has not yet fully staffed its secretariat, the Intelligence-Security Advisory Service. As a result, some delay in completing the review process (i.e., reappointment) of staff inherited from the former Republika Srpska and Federation agencies is inevitable. This review of staff should, nonetheless, be complete by mid-November 2004, giving the Intelligence and Security Agency a staff complement that is both operationally efficient and affordable.

73. In general, the transformation of the intelligence and security sector is proceeding according to plan, despite some managerial difficulties. Although a politically and nationally sensitive project, working groups staffed by members of the former intelligence agencies have cooperated to draft new by-laws and are preparing for their final integration in one fully operational agency by 31 December 2004. Obviously, these formal preparations are only a part of the challenge. Mutual suspicions will be overcome only gradually; there will be practical difficulties to sort out; and conflicts will undoubtedly surface. Thus while ultimate responsibility for ensuring that the Intelligence and Security Agency actually functions as envisaged will continue to lie with the Bosnia and Herzegovina authorities — and, in particular, with the premier and Council of Ministers — I consider it necessary to maintain our policy of assisting, monitoring and guiding the process. I have therefore established the post of "supervisor for intelligence reform" to which I have appointed Ambassador Kalman Kocsis. He will work with the Intelligence and Security Agency management to ensure that the Agency develops as it should.

XI. SFOR handover to EUFOR

74. At its summit in Istanbul on 28 and 29 June 2004, NATO announced that the Stabilization Force (SFOR) would be terminated. On 9 July the Security Council welcomed the European Union's intention to launch a military mission from December 2004 and, on 12 July 2004, the European Council issued its decision to replace the NATO mission with an EU-led force (EUFOR). Concurrently, NATO will establish a headquarters in Sarajevo, which will assist the Bosnia and Herzegovina authorities in continuing defence reforms.

75. The launch of EUFOR in Bosnia and Herzegovina marks the beginning of a new phase in the country's recovery: its transition from the era of Dayton to the era of Brussels. The EU force will work in unison with the EU Special Representative/High Representative, the European Union Police Mission, the European Union Monitoring Mission and the European Commission's assistance programmes to support the stabilization and association process and the Office of the High Representative's mission implementation plan. EUFOR is meant to buttress the comprehensive EU approach towards Bosnia and Herzegovina, enabling the country to progress towards EU integration by its own efforts.

76. Bosnia and Herzegovina still requires assistance to continue defence and wider security-sector reforms in preparation for its eventual integration into Euro-Atlantic structures, in the first instance the Partnership for Peace. Building upon the implementation of the Defence Law and the establishment of State defence institutions in 2004, the task commencing in 2005 will be to develop the State's capacity to exercise its right to command and control the armed forces through the

chain of command's operational and administrative branches. Thus, the main focus will be on developing Bosnia and Herzegovina defence institutions.

77. The long-term NATO political commitment to the country will remain; and the establishment of a NATO headquarters will underline that fact. The NATO Sarajevo headquarters will have as its principal task the maintenance of the momentum on defence reform, through the leadership of international efforts to support the Bosnia and Herzegovina authorities in defence reform. This will be done by co-chairmanship by NATO of the Defence Reform Commission. The office will also undertake certain operational and support tasks.

78. Since the formal decision, planning has continued apace, and joint visits by EU and NATO leaders have reinforced the unity of purpose of the two organizations.

XII. Mostar

79. The opening of the rebuilt Old Bridge in Mostar on 23 July 2004 was both a symbolic and substantive achievement for the city and its citizens. It took place in a festive and peaceful atmosphere and attracted the attention of the world. It showed that Mostar was returning to normality, that wartime and post-war tensions had eased considerably over the past few years, and that the city's unification was indeed under way.

80. As I wrote in my last report, the Office of the High Representative was heavily engaged in efforts at the end of last year to unify the city of Mostar. Our aim was to produce a permanent statute for the city, based on compromises that would eliminate the ethnic and political divisions sustained by the continuing existence of the six so-called "city-municipalities" and "central zone". In addition to dealing with the "city-municipalities", we needed to elaborate an electoral system that would ensure a measure of power-sharing among the city's national communities. Although virtually everything else in the future statute had been agreed by the parties represented on the commission chaired by Norbert Winterstein, it was obvious that it was necessary to implement a lasting peace in Mostar by providing solutions to the still-contentious issues. A statute "key stone" was thus imposed on 28 January 2004. This was effectively the last possible date if the accompanying implementation plan were to be effected before the Bosnia and Herzegovina municipal elections scheduled for 2 October 2004.

81. In order to preclude the perpetuation of parallel ethnic structures, it was necessary to abolish the "city-municipalities" and to transform them into "city areas" which are, in effect, merely branch offices of the unified city administration, as well as electoral districts. The new statute also guarantees power-sharing by means of both national quotas and a range of safeguards for vital national interests in the composition and rules of the city council. These will prevent domination by any single nationality, so protecting minority rights, while ensuring a broad national balance in the city government and administration to be formed after the elections of 2 October.

82. Along with the statute, a decision was issued on the steps and timetable by which the city would be unified. Thanks to help from Germany, Spain, the United Kingdom and OSCE, we were quickly able to establish a Mostar Implementation

Unit, charged with assisting the mayor and deputy mayor in carrying out the necessary reform measures. A Committee on Confidence-Building Measures was formed, composed of local dignitaries, in order to win popular support for the unification process.

83. From the beginning, implementation has proceeded well, despite initial opposition — and for opposite reasons — by the two main political parties in the city. But they did not seek to obstruct the plan and have latterly offered it at least tacit support. The abolition of the "city-municipalities" passed off without incident in March. Since then, rules of procedure for the new council have been adopted, a joint budget enacted, and a systematization scheme for the city administration has been put into effect. European financial standards have been introduced to limit fraud and corruption, municipal and cultural institutions are being reunited, and work is under way on forming a professional and streamlined city administration. A positive side-effect of the financial reforms already put in place has been a significant increase in the revenues available for capital projects, enabling the city to launch a range of high-profile infrastructure projects for the benefit of the population as a whole.

84. In summary, 10 years after the war, the reorganization and unification of Mostar is mostly on track and on time.

XIII. The Srebrenica Commission

85. A suit brought by a group of relatives of those still classified as missing following the fall of the Srebrenica "safe area" in July 1995 led, in 2003, to a judgement by the Bosnia and Herzegovina Human Rights Chamber requiring Republika Srpska, inter alia, to conduct an in-depth investigation to discover the fates of these missing persons and to issue a report on its efforts and findings.

86. Although the Human Rights Chamber's judgement did not task the Office of the High Representative with any particular action, it was clear that international monitoring and stimulus to this process was necessary if it was to have the outcome sought by the Human Rights Chamber. I therefore requested the Senior Deputy High Representative, Bernard Fassier, to monitor the activity of the Republika Srpska Commission. Following the Commission's belated establishment in January 2004, it became apparent that the role of the Senior Deputy High Representative would need to involve more than mere monitoring if the Commission were to produce a meaningful report that disclosed hitherto unknown facts relevant to the chamber's judgement. Bernard Fassier and his staff thus became engaged in issues relating to the composition of the Commission, its methods of work and the removal of obstacles to its investigation.

87. The eventual result of these efforts was a report in June that, for the first time, constituted recognition by the Republika Srpska of the origins, nature and extent of the atrocities committed in and around Srebrenica. The report also disclosed the location of previously unknown primary and secondary mass graves, documents and other evidence that may serve as bases for further prosecutions of war crimes.

88. The report established that, between 10 and 19 July 1995, some 8,000 Bosniaks were liquidated in a manner that constituted a severe violation of the

international laws of war and that the perpetrators and others took elaborate measures to conceal these crimes by relocating the bodies.

89. Moreover, the report:

- Identified 32 locations of mass graves, 11 of which were not previously known;
- Elaborated upon the participation of particular Republika Srpska military and police units;
- Alluded to participation by army and police units from "Republika Srpska Krajina" and Serbia in the action and aftermath.

90. The report cites documents making clear that "Operation Krivaja" had three planned phases: the attack on Srebrenica, the separation of women and children, and the execution of males.

91. The Srebrenica Commission promised to produce a consolidated list of all the persons still unaccounted for after the July 1995 events in and around Srebrenica, but stressed that it would have achieved better results if it had had access to other relevant documentation of the competent Republika Srpska institutions, as well as to records of the Federation.

92. On 11 June 2004 I sent letters to the EU High Representative for Common Foreign and Security Policy, Javier Solana, as well as to the NATO Secretary-General, Jaap de Hoop Scheffer, enclosing copies of the report and my assessment of it. My letter stressed that the information provided would need further examination and that nothing that had been revealed by the commission altered in any way the continuing necessity for full cooperation with the International Criminal Tribunal for the Former Yugoslavia if Bosnia and Herzegovina were to move forward towards integration in Euro-Atlantic institutions.

XIV. Bosnia and Herzegovina and the region

93. Bosnia and Herzegovina's successful presidency of the South-East European Cooperation Process, including the first meeting of defence ministers from the region, demonstrated the country's capacity to play a valuable political role on the regional level, as well as the utility of the Process as an inter-State forum.

94. The first International Investment Conference organized by the Government of Bosnia and Herzegovina was held in Mostar on 26 and 27 February. Although overshadowed by the tragic deaths of the President of the former Yugoslav Republic of Macedonia, Boris Trajkovski, and his delegation when their aircraft crashed while approaching Mostar, the Conference facilitated the establishment of potentially significant business contacts and investment opportunities. Apart from the positive political and economic signals that the conference sent out to the international business community, 12 concrete investment projects were presented to would-be investors.

95. The wave of intercommunal violence that roiled Kosovo in mid-March did not spill over into Bosnia and Herzegovina. Political leaders adopted a mature and statesmanlike approach, the country remained calm, and SFOR units were despatched to Kosovo to reinforce KFOR.

96. Bosnia and Herzegovina relations with Serbia and Montenegro have continued to improve, assisted latterly by the election of Boris Tadić as President of Serbia. Bilateral forums function on a regular basis, including efforts to delimit the exact border on the lower Drina near Zvornik. Emphasis is placed, however, on economic cooperation. For example, a Business Council was launched at the Mostar Investment Conference to exchange information and develop common strategies for entering third markets.

97. Bosnia and Herzegovina and Croatia are farther ahead in normalizing their relations. Formal meetings at presidential level between Croatia and Bosnia and Herzegovina are held twice annually, and President Stipe Mesić is a regular visitor. Prime Minister Ivo Sanader has also taken a constructive approach to Bosnia and Herzegovina and the position of Croats in the country. Border issues between Bosnia and Herzegovina and Croatia have been almost entirely resolved, with the notable exception of Croatia's continuing failure to ratify the treaty granting Bosnia and Herzegovina free-port rights at Ploče.

98. The European Union's acceptance of Croatia as a candidate for membership has had a positive impact in the region, demonstrating that the other western Balkan States can realistically entertain similar ambitions. Croatia, for its part, has expressed its readiness to assist its neighbours to the south-east in following its lead.

XV. Returns by refugees and displaced persons

99. The Bosnia and Herzegovina authorities successfully assumed responsibility for annex VII implementation during the reporting period. The Office of the High Representative has maintained a small team — the Annex VII Verification Unit — to monitor the return process until the end of November 2004. The expected setback to this process predicted by many did not take place.

100. On the contrary, the rate of property-law implementation climbed to 93 per cent during the period, with 95 out of 130 municipalities having been deemed to have substantially completed the process.

101. According to UNHCR statistics, actual returns this year have decreased significantly in comparison to 2003. It remains too early to say with any certainty, however, what the main factors behind this fall may be, or whether it represents a permanent trend.

102. The State Law on Refugees and Displaced Persons, as amended in September of last year, is being implemented gradually. The Ministry for Human Rights and Refugees established its regional centres in Sarajevo, Mostar, Banja Luka and Tuzla. They became operational during the reporting period.

103. The Bosnia and Herzegovina State Commission for Refugees and Displaced Persons, on which the Office of the High Representative sits as an observer, has been appointed and is now acting as the main coordinating body between the State, the entities and Brčko District. The director of the Return Fund has also been appointed. It can therefore be expected that this institution, referred to in the European Commission Feasibility Study, will soon assume its vital role of controlling financially return projects approved by the State Commission.

104. The Republika Srpska has obstructed the harmonization of entity legislation with the State Law on refugees and displaced persons. The Office of the High Representative remains active in seeking to ensure that bureaucratic and political barriers are removed, so allowing for completion of the harmonization process.

105. The transfer of responsibilities from the Commission for Real Property Claims to the Bosnia and Herzegovina authorities was mostly completed during the reporting period. We expect that a body charged with reconsidering Commission decisions will be established and are awaiting the appointment of its commissioners.

XVI. The European Union Police Mission

106. Following the sudden and tragic death of European Union Police Mission Commissioner Sven Frederiksen in January 2004, the Council of the European Union appointed Kevin Carty of Ireland as his successor. Commissioner Carty assumed his command on 1 March 2004.

107. The EU Police Mission continued during the reporting period to implement its seven programmes, registering notable progress in several areas.

108. The development of a standardized national intelligence model for application throughout the country has assisted in the fight against major and organized crime. Likewise, the standardization of the CID system in the entities and Brčko District is paving the way for the State-level agencies (SIPA, State Border Service and Interpol) working under the umbrella of the Ministry of Security to collaborate more effectively with lower-level agencies.

109. Supported by international stakeholders, the EU Police Mission set up a free telephone hotline called *Krimo-lovci* (Crime Hunters) in March 2004. Citizens can now report anonymously any criminal activity they see or learn about to the local police, who are monitored by the Mission. *Krimo-lovci* has received an average of 19 calls per day since its inception.

110. Progress in the fight against major and organized crime, including human trafficking, received international recognition: the Fourth Annual Trafficking in Persons Report, issued by the United States Department of State in 2004, acknowledged this progress by upgrading Bosnia and Herzegovina from tier 3 to tier 2.

111. SIPA is now an established police force with executive powers. The EU Police Mission, the Office of the High Representative and other stakeholders developed a package of laws, adopted by the Bosnia and Herzegovina Parliamentary Assembly during the period, which will make SIPA the key force in the fight against serious organized crime. SIPA moved into a temporary headquarters building in Sarajevo in May. SIPA has also established two regional headquarters in Banja Luka and Mostar. Altogether, the three offices currently employ a total of 131 local members of staff. The EU Police Mission's role is strictly limited to mentoring, monitoring and inspections within SIPA. More recruitment will take place in the second half of the year.

112. The State Border Service (SBS) has continued to enforce its mandate. It has intensified cooperation with SFOR and the entity-based police forces, increasing the number of joint border operations. A new law that would equip SBS with an

enhanced legal standing is currently under discussion. Finally, it should be noted that persons indicted for war crimes were, during this reporting period, for the first time arrested by SBS while attempting to cross the Bosnia and Herzegovina frontier. These arrests represent an important step in the development of SBS as a modern and effective border police.

XVII. Police certification

113. In my last report, I brought to your attention numerous problems related to the certification process conducted by the International Police Task Force (IPTF) during its time in Bosnia and Herzegovina. Immediately following the completion of the UNMIBH mandate at the end of 2002, numerous police officers that had been denied certification by IPTF challenged the legality of their dismissals in the courts. Some have been reinstated as a result of rulings in their favour by the domestic courts.

114. On 25 June 2004, the President of the Security Council made a statement on behalf of the Council that called upon the authorities of Bosnia and Herzegovina to ensure that all IPTF decisions were fully and effectively implemented. Meanwhile, discussions have been taking place between my office and the United Nations on how best to handle frequent allegations of injustices by former police officers, some supported by the representative of another United Nations agency in Bosnia and Herzegovina. To that end, staff of the Office of the High Representative have met with United Nations officials in New York to seek a remedy for these problems.

XVIII. Media development

115. My office continued during the period under review to work closely with the Bosnia and Herzegovina authorities to help them meet the requirements of the Feasibility Study in the field of public broadcasting. This is part of the long-term process of transferring responsibility for these issues to the relevant domestic institutions. The Council of Ministers endorsed the draft legislation on public broadcasting at the end of April 2004 and forwarded it to the Parliamentary Assembly for enactment. This legislation is largely compliant with both European standards and the Dayton Peace Agreement. Further clarity is needed, however, in regard to one of its most important aspects: the common resource corporation. My office and the European Commission are now lobbying the Bosnia and Herzegovina parliament to address outstanding issues and to ensure the sustainability of public broadcasting in Bosnia and Herzegovina. The State-wide television service that is intended to become the central institution in Bosnia and Herzegovina's reformed public broadcasting system was launched in August 2004 to coincide with the Olympic Games.

XIX. Mission implementation plan

116. The Office of the High Representative presented an update of its mission implementation plan to the Peace Implementation Council Steering Board in June 2004. The update covered the first six months of the year, and showed that

considerable progress has been made. The updated version of the document can be found on the Office's web site (www.ohr.int).

117. There have been notable advances in all four of the Office's core tasks: rule of law, reforming the economy, strengthening the capacity of Bosnia and Herzegovina institutions and defence reform.

118. Some of the major accomplishments include:

- The Independent Judicial Commission completed its operations with the establishment of a single Bosnia and Herzegovina High Judicial and Prosecutorial Council on 1 June. This was a significant milestone for Bosnia and Herzegovina and achievement for the international community. (rule of law)
- The SIPA package of laws was enacted during May of this year, representing a critical step towards re-shaping the country's criminal enforcement landscape. (rule of law)
- Progress has been made in adopting several key economy-related laws, including the ISO and TRANSCO laws, Bosnia and Herzegovina State-level insurance laws (electricity sector), a Law on Business Registration, a Law on Accounting and Auditing, and the Law on Registered Pledges. (economic reform)
- The Intelligence Law was adopted on time in March this year, and the Intelligence Agency was established. (strengthening the capacity of Bosnia and Herzegovina institutions)
- The appointment of a defence minister in March marked a fundamental step forward for the country. This appointment was followed by others to key State-level military posts and the establishment of the requisite defence institutions. (defence reform)
- The identity-card management programme has made great strides in endowing the State with the means to manage — and to vouch for the integrity of — identity documents, despite politically motivated attempts to undermine it. (strengthening the capacity of Bosnia and Herzegovina institutions)

119. However, many of the same problems we flagged in the previous report remain issues for us today. Even with the increasingly real lure of EU and NATO membership, the reform process is taking longer than we had anticipated or hoped. We have already seen these delays manifested in at least three ways:

- Drafting of key legislation often takes longer than expected, especially as we rely more on the Bosnia and Herzegovina authorities and other agencies to craft essential laws.
- Draft laws are usually held up during the adoption process and frequently require multiple amendments.
- Lengthy delays in actually implementing reforms persist (e.g., in allocating permanent premises for SIPA).

120. In addition to pursuing its mission implementation plan agenda, the Office of the High Representative has devoted both time and resources to addressing other issues of importance to both Bosnia and Herzegovina and the international

community. Notable examples are the Srebrenica Commission and education reform, otherwise led by OSCE.

XX. Reporting schedule

121. In keeping with my proposal to submit regular reports for onward transmission to the Security Council, as required by resolution 1031 (1995) of 15 December 1995, I plan to send my next report in January 2005. This report will cover the period from 1 July to 31 December 2004. My aim is that subsequent reports should also cover six-month periods. Should you or any Council member require information at any other time, I should be only too pleased to provide a written update.